Committee on Ways and Means

February U.S. Trade Deficit

Data released this week reports that the U.S. trade deficit in goods and services was at an all time high of $61 billion in February. The January trade deficit was $58.5 billion. February's trade deficit represents record exports of $100.5 billion and record imports of $161.5 billion.

- Recent export growth has been relatively stagnant, growing only 0.1 percent since January. This reflects weak demand for American goods among our slower growing trade partners, notably Europe and Japan.
- In contrast, imports grew by 1.6 percent in February. Part of this is due to rising oil prices and increased weakness in the dollar, which combine to increase the cost of a given amount of imports.
- Imports of textiles and clothing from China increased 9.8 percent along with the end of the quotas on these goods. Despite this, our overall deficit with China improved to $13.9 billion, down 9.2 percent from a January deficit of $15.3 billion, reflecting an increase in U.S. exports to China and declines in import categories outside of textiles.
- <u>Outlook</u>: Improvements in the trade balance are likely, although it may be a long road.
    - Imports are currently 50 percent higher than exports, so exports would have to grow at a much faster rate than imports to bring the trade deficit into balance.
    - The fall in the value of the dollar should contribute to an improvement in the trade deficit, as exports from the U.S. become increasingly attractive abroad and import prices rise.
    - Import prices from countries with flexible exchange rates have risen appreciably over the past year, and the trade balance with these countries has begun to improve.